

# **MATZIKAMA MUNICIPALITY**



## **FINAL MTREF BUDGET REPORT 2019/20**

**2019/20–2021/22**

Medium Term Revenue and Expenditure Framework

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## Glossary

<b>Adjustments budget</b> – Prescribed in Section 28 of the MFMA. The formal manner in which a municipality can revise its budget during the year.
<b>Budget</b> – The financial plan of the Municipality.
<b>Budget-related Policy</b> – Policy of a municipality affecting the budget or affected by the budget, such as the tariff policy, rates policy and credit control and debt collection policy.
<b>Capital expenditure</b> – Expenditure on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's balance sheet.
<b>Cash flow statement</b> – A statement showing when actual cash is to be received and spent by the Municipality. Cash payments do not always correspond with budgeted expenditure frameworks. For example, when an invoice is received by the Municipality, it is regarded as expenditure in the month; even if it is not paid within the same period.
<b>DORA – Distribution of Revenue Act.</b> Annual legislation containing the total allocations by national government to provincial and local governments.
<b>Equitable share</b> – A general allocation paid to municipalities. It is mainly aimed at rendering assistance with free basic services.
<b>Fruitless and wasteful expenditure</b> – Expenditure done in vain and that could have been avoided if reasonable care was exercised.
<b>GFS</b> – Government Finance Statistics. An internationally recognised classification system making a type by type comparison between municipalities.
<b>Grants</b> – Money received from Provincial or National Government and other municipalities.
<b>GRAP</b> – Generally Recognised Accounting Policy. The new standard for municipal accounting.
<b>IDP</b> – Integrated Development Plan. The main strategic planning document of the Municipality.
<b>KPI's</b> – Key Performance Indicators. Measurement of service outputs and/or outputs.
<b>MFMA</b> – The Municipal Financial Management Act – No. 53 of 2003. The main legislation applicable to municipal financial management.

<p><b>MTREF</b> – Medium Term Revenue and Expenditure Framework. A Medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budgetary allocations. Also includes details of the financial position of the preceding and current year.</p>
<p><b>Net Assets</b> – Net assets are the residual interest in the assets of the entity after all its liabilities have been deducted. This means that the net assets of the municipality equal the "net welfare" of the municipality, after all assets had been sold/recovered and all liabilities had been paid. Transactions that do not fall under the description of Revenue or Expenditure, such as increase in the value of Property, Plant and Equipment, where no in- or outflow of resources occurs, are recorded under Net Assets.</p>
<p><b>Operational expenditure</b> – Expenditure on the day-to-day expenses of the Municipality, such as salaries and wages.</p>
<p><b>Property rates</b> – Local authority rates based on the assessed value of a property. In order to calculate the rates payable, the assessed value is multiplied by the rate in the rand.</p>
<p><b>SDBIP</b> – Service Delivery and Budget Implementation Plan. A detailed plan consisting of quarterly performance targets and monthly budget estimates.</p>
<p><b>Strategic Objectives</b> – The main priorities of the Municipality as set out in the IDP. Budgeted expenditure must contribute to the achievement of the strategic objectives.</p>
<p><b>Unauthorised expenditure</b> – In general, expenditure without, or in excess of an approved budget.</p>
<p><b>Virement</b> – A budget transfer.</p>
<p><b>Vote</b> – one of the main segments of a budget.</p>

## **PART 1 – ANNUAL BUDGET**

### **1.1 Executive Mayor's Report**

Speaker, in terms of section 16(2) of the Municipal Finance Management Act (Act 56 of 2003) (MFMA), it is my privilege to table the 2019/20 to 2021/22 Medium Term Revenue and Expenditure Framework (MTREF) to Council.

Section 21(1)(a) of the Municipal Finance Management Act, No 56 of 2003 (MFMA), requires from the Executive Mayor of Matzikama Municipality to co-ordinate the processes for preparing the annual budget and for reviewing the Municipality's integrated development plan and budget related policies to ensure that the tabled budget and any revisions of the integrated development plan and budget-related policies are mutually consistent and credible.

Section 16(2) of the MFMA determines that the Executive Mayor must table the annual budget at a Council meeting at least 90 days before the start of a budget year. Section 17 of the MFMA determines that the tabled annual budget must be in the prescribed format, must generally be divided into a capital and operating budget as may be prescribed and must be accompanied by certain documents.

As this budget constitutes the proposed financial plan for the next 3 years, it naturally impacts on the community as a whole and it is thus extremely important to consult the community in a bid to create awareness and to gain support for joint ownership and responsibility in managing the municipality's financial affairs. Consequently, a compulsory period of community liaison followed during the month of April 2019 of which the comments was considered by the Executive Mayor in a bid to give effect to Section 23 of the Municipal Financial Management Act and to ultimately facilitate final approval of the 2019/2020 budget on 28 May 2019.

#### **Executive Mayor's Response to the input received from the public and the Provincial Government.**

One set of comments (PT's detailed assessment report) is excluded as the process utilised for this purpose is the LGMTEC engagement with the senior management. Contained as ANNEXURE G to the budget documentation to which they have responded already was received by the due date and for purposes of good order are listed hereunder with my response inclusive of the effect on the Budget:

#### **Objections to tax rates:**

- GJJ van ZYL h/a WILGENHOF BOERDERY
- M Carstens
- JW & DW Wessels
- S & P Brand
- "Landbou Gemeenskaps Ontwikkeling"

#### **RESPONSE:**

Additional 25% rebate on agricultural rate granted for DMA Farmers

Additional 40% rebate on residential rate granted for Residential Farmers category

Council's strategic objectives of service delivery include the continuation of an acceptable level of services, as well as improvement in those areas still in need of development. It remains a priority of the Council to contain service delivery within the affordability levels of the community whilst focusing on the seven strategic focus areas that Council wish to strive to achieve over the next three years:

- Functional Municipal Basic Services;
- Sufficient Revenue;
- Economic Growth and Development;
- A Quality Living Environment;
- A Developmental Municipality
- A Quality Administration and Internal Efficiency;
- A Responsive Natural and Built Environment.

Strategic objectives were developed for each focus area that are specifically linked to the multi-year budgets and is given effect to in the Service Delivery and Budget Implementation Plan. The municipality has also ensured that there is a distinction between municipal functions and those of other spheres of government.

To achieve the above, a balancing act is required between the set objectives and available financial resources, while taking into consideration the effect of tariff adjustments on the community as a whole, and more particularly the needs of the poor and vulnerable. Matzikama Municipality takes pride in achieving a clean audit status for the past four consecutive years and we shall continue to ensure accountability and good governance.

The budget is aligned to address the significant risks that emanate from our risk management processes to ensure the provision of adequate services as envisaged by the Constitution. Infrastructure expenditure in excess of R190m is provided for over the MTREF budget period in line with the infrastructure LED growth strategy. Council is confident that the delivery of infrastructure based on societal and business needs is an economic enabler that will unlock economic growth and job creation.

The local government equitable share is projected to increase by 9.9% in 2019/20, 9.7% in 2020/21 and 8.6% in 2021/22. The proposed division of revenue continues to prioritise funding services for the poor. Allocations to local government subsidise the cost of delivery of free basic services to low-income households, and the infrastructure needed to deliver those services. The construction of low cost housing expenditure amounting to R23.1m is budgeted over the MTREF budget period of which R17.9m is budgeted for the 2019/20 budget year.

The adoption of a funded budget is key for the financial sustainability of the municipality. There was no tangible improvement in the economic situation of the Country since the previous financial year and the Monetary Policy Committee of the SARB projected inflation at 4.8% for 2019. National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality. The Consumer Price Index (CPI) inflation is forecasted to be within the upper limit of the 3 to 6 per cent target band; therefore, municipalities are required to ***justify all increases in excess of the projected inflation target for 2019/20.***

NERSA approved an increase of 15.63% The National Energy Regulator of South Africa (NERSA) published their approved "ESKOM Application for Retail Tariffs and Structural Adjustment (ERTSA)" that sets out the ESKOM tariff increase for municipalities that comes into effect on 1 July 2019. The NERSA document proposes a 15.63% increase for municipal electricity tariffs for 2019/20. Salary and wage increases are budgeted at 6.5% in accordance with paragraphs 6.3 to 6.5 of the Salary and Wage Collective Agreement for 2018-2021.

To achieve the above, a balancing act is required between the set objectives and available financial resources, while taking into consideration the effect of tariff adjustments on the community as a whole, and more particularly the needs of the poor and vulnerable. Matzikama Municipality takes pride in achieving a clean audit status for the past four consecutive years and we shall continue to ensure accountability and good governance.

I herewith submit the annual budget (Tabled 2019/20 MTREF Budget Report) for the 2019/20 to 2021/22 financial years to be considered by Council.

**JOHAN VAN DER HOVEN**  
**EXECUTIVE MAYOR**

## 1.2 Council Resolution

### Recommendation to Council:

1. That in terms of section 24 of the Municipal Finance Management Act, (Act No.56 of 2003)(MFMA), the annual budget of the Matzikama Municipality for the 2019/20 to 2021/22 MTREF (Medium Term Revenue and Expenditure Framework **be approved and adopted** as set out in the following schedules):
  - a) Table A1: Budget Summary;
  - b) Table A2: Budgeted Financial Performance (by standard classification);
  - c) Table A3: Budgeted Financial Performance (by municipal vote);
  - d) Table A4: Budgeted Financial Performance (revenue by source); and
  - e) Table A5: Budgeted Capital Expenditure (by municipal vote and funding source)
  - f) Table A6: Budgeted Financial Position
  - g) Table A7: Budgeted Cash Flow
  - h) Table A8: Cash backed reserves/Accumulated surplus reconciliation
  - i) Table A9: Asset management
  - j) Table A10: Basic service delivery measurement
2. That the annual operating budget and capital budget( high level budget summary) of Matzikama Municipality as contained in Section 3, be approved;
3. That the 3-year capital budget of Matzikama Municipality for the 2019/20 financial year; and the indicative two projected outer years, 2020/21 and 2021/22, as contained in Annexure A, be approved;
4. That the annual budget tables as prescribed by the Budget and Reporting Regulations for the Matzikama Municipality for the 2019/20 financial year; and the indicative two projected outer years, 2020/21 and 2021/22, as set out in Section 4, be approved ;
5. That in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) (MSA) the property rates reflected in Annexure B, be imposed on properties in WC011 for the 2019/20 budget year;
6. That in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) (MSA) tariffs and charges reflected in Annexure B, be imposed on properties in WC011 for the 2019/20 budget year;
7. That the revisions to the budget and other related policies as set out in ANNEXURE C, be approved; and
8. That cognisance is taken of the 2019/20 Budget Report.
9. The service delivery standards be approved for 2019/20.



## 1.3 Executive Summary

### Introduction

This budget was compiled in accordance with the mSCOA chart version 6.3 as outlined in MFMA Budget Circular No 94 issued in terms of the Municipal Finance Management Act No. 56 of 2003. All applicable budget related policies were reviewed and adjusted to ensure alignment to mSCOA.

After slowing to 0.6% growth in 2016, growth increased to 1.3% in 2017 (matching 2015's rate). However, the economy entered into a technical recession in 2018 with quarter-on-quarter economic growth contracting in the first (-2.6%) and second quarters (-0.7%) of the year. The main drag in both quarters was a significant contraction in value added by the agricultural sector. However, the weakness was broad based as the wholesale and retail trade, catering and accommodation services sector also contracted in the first and second quarters of 2018.

Growth has remained stagnant at less than 2% and unemployment remains high at 26.7%. The prerequisites for increased revenue and expanded service delivery are more rapid growth, investment and job creation. The GDP growth rate for South Africa is forecasted at 1.5% in 2019, 1.7% in 2020 and 2.4% in 2021.

The current South African economic conditions as outlined above also impacts the economy of the Matzikama Municipality. Agriculture output is expected to pick up as the Western Cape recovers from the crippling drought and the delayed harvesting of summer crops. Agriculture is the biggest contributor to the GDP of Matzikama municipal economy. These economic challenges will continue to exert pressure on municipal revenue generation and collection levels hence a conservative approach was followed with revenue projections.

The programmes of this budget are informed by the matters described section 156(1) of the Constitution. The 2019/20 MTREF Budget is responsive to the key priorities of the municipality and predominantly focuses on creating value for our communities and stimulating our constrained economy through investment in infrastructure and establishing a firm foundation for external investment in our economy. The Municipality's business and service delivery priorities were reviewed as part of the budget planning process to ensure alignment with the current risks facing the municipality. National Treasury issued MFMA Budget Circular No. 94 to guide the compilation of the 2019/20 MTREF. mSCOA Version 6.3 (Municipal Annual Budget and MTREF with supporting tables) were also issued with MFMA Budget Circular 94. These circulars are included in Annexure E to this report.

Curtailing the non-core expenditure is continually emphasised by the National Treasury. In order to maintain a funded budget, Matzikama also focused on the curtailment of non-core expenditure. The following additional cost containment measures introduced by National Treasury will still be implemented:

- Review of human resource plans and elimination of excessive positions;
- Capital budgeting reforms to align plans with budget allocations while strengthening maintenance procedures;
- Curtail conference costs and travel related costs

The application of sound financial management principles forms the basis of Matzikama's budget and is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities. Though not specifically noted as a strategic theme, Sound Corporate Governance & Compliance is inherent in all themes of Matzikama Municipality. King IV defines corporate governance as the exercise of ethical and effective leadership by the governing body towards the achievement of an ethical culture, good performance effective control and legitimacy.

The principal challenges experienced with the compilation of the 2019/20 MTREF can be summarised as follows:

- The impact of the recent severe drought conditions on our economy;
- Ever aging water, roads, sewerage and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope
- The cost of bulk electricity
- Revenue recovery from cost reflective core municipal services

The following budget principles and guidelines directly informed the compilation of the 2019/20 MTREF:

- The programmes as outlined in our IDP;
- The 2018/19 Adjustments Budget priorities and targets and the base line allocations contained in the Budget Circulars;
- Service level standards that were applied to inform the measurable objectives, targets and any backlog eradication goals;
- Affordable tariffs and property rates increases
- Cost containment measures
- Uncontrollable input cost increases
- The National Development Plan, Integrated Urban Development Framework and the Back-to-Basics Programme

The table below is a consolidated overview of the proposed 2019/20 MTREF:

**Table 1: Consolidated Overview**

<b>Description</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Revenue (excluding capital transfers)	352 973	398 527	461 131	437 891
Operating expenditure	352 830	398 365	457 974	435 707
<b>Surplus / (Deficit)</b>	<b>143</b>	<b>162</b>	<b>3 157</b>	<b>2 184</b>
Add: Capital transfers	57 625	80 666	59 580	63 907
<b>Surplus after capital transfers</b>	<b>57 768</b>	<b>80 828</b>	<b>62 737</b>	<b>66 091</b>
<b>Capital Budget</b>	<b>57 625</b>	<b>80 675</b>	<b>59 580</b>	<b>63 907</b>

Table 1 reflects a surplus for each year of the MTREF period. Revenue in 2019/20 is expected to increase by 12.9% when compared to 2018/19 final budget. Operating expenditure in 2019/20 is expected to increase by 12.9% when compared to 2018/19 final budget.

Although the 2019/20 operational budget and indicative years present small surplus margins, it does not reflect the actual cash position. This phenomenon will continue for the foreseeable future. These circumstances arose as the result of the implementation of GRAP, with special reference to GRAP 17 (Property, Plant and Equipment-PPE).

The asset value before depreciation is in excess of R800m, which gives rise to substantially high depreciation charges. The cost of a substantial portion of these assets had been fully redeemed previously, but the useful lives of assets were extended as well as the constant increasing of assets funded by capital transfers. The replacement thereof can thus not be recouped via current tariffs as this would lead to taxation in advance of need and no reserves may be established for these purposes. The principle of recovering actual cash costs during each financial period is adhered to.

The capital budget of R91,6m for 2019/20 is 25% more when compared to the 2018/2019 Adjustments Budget. Own funding of the capital budget is limited due to available resources to fund the capital budget. The capital programme decreases to R62,9m and R66m in the outer two MTREF budget years.

The capital budget will be funded through conditional grants from National and Provincial Government (83%), internally generated funds (12%) and public contributions and donations (5%).

## **1.4 Operating Revenue Framework**

To continue delivering quality basic services to all stakeholders and improving the socio-economic cohesion in communities, Matzikama Municipality needs to generate the required revenue levels. In the current protracted economic climate that is multiplied by the adverse impact of the prevailing drought conditions, effective revenue management is fundamental to the financial sustainability of the municipality.

The reality is that we are faced with an increasing population, development backlogs and increasing poverty levels. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is crafted around the following key components:

- National Treasury's guidelines and macro-economic policy;
- Effective revenue management;
- Local economic development;
- Tariff increases based on the revenue requirement for each service;
- Electricity tariff increases as approved by NERSA;
- Approved Property Rates Policy;
- Approved Indigent Policy;
- Approved budget related policies.

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services forms a significant percentage of the revenue basket for the Municipality. Rates and services revenues comprise more than 65% of the total operating revenue mix. For the 2019/20 financial year, revenue from rates and services charges amounts R261.5m. This amount increases to R280.2m and R297m respectively in the outer two financial years of the MTREF.

Tariff and property rates revenue stream increases approximate inflation as measured by the CPI. The cost of bulk water and electricity is beyond the control of the municipality. Tariffs need to remain or move towards being cost reflective and should take into account the need to address infrastructure backlogs.

The national and provincial funded projects represent grants to the municipality that are reflected in the national and provincial budgets and have been gazetted in the annual Division of Revenue Act.

The following table is a summary of the 2019/20 MTREF (classified by main revenue source):

**Table 2: Summary of revenue classified by main revenue source**

Description R thousand	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>Revenue By Source</b>										
Property rates	36 598	42 530	44 727	47 103	47 103	47 103	47 103	52 085	57 570	60 462
Service charges - electricity revenue	93 773	102 379	100 072	123 171	123 171	123 171	123 171	152 259	162 308	173 020
Service charges - water revenue	15 165	16 952	11 016	15 308	22 296	22 296	22 296	23 456	24 699	26 008
Service charges - sanitation revenue	13 010	13 740	14 252	15 919	15 919	15 919	15 919	16 747	17 635	18 569
Service charges - refuse revenue	13 275	14 281	14 941	16 258	16 258	16 258	16 258	17 103	18 010	18 964
Rental of facilities and equipment	3 983	3 621	1 597	1 513	2 338	2 338	2 338	2 249	2 368	2 493
Interest earned - external investments	1 654	1 701	2 498	1 632	3 532	3 532	3 532	3 716	3 913	4 120
Interest earned - outstanding debtors	3 125	3 162	2 835	3 285	4 414	4 414	4 414	4 644	4 890	5 149
Fines, penalties and forfeits	5 778	5 825	10 835	2 594	15 794	15 794	15 794	16 616	17 496	18 423
Licences and permits	1 122	1 164	1 302	1 126	1 127	1 127	1 127	1 185	1 248	1 314
Agency services	2 628	2 740	3 285	3 234	3 534	3 534	3 534	3 718	3 915	4 122
Transfers and subsidies	52 131	54 632	59 053	64 089	68 476	68 476	68 476	71 596	118 960	76 054
Other revenue	4 559	6 773	6 241	7 734	18 458	18 458	18 458	12 154	11 507	11 878
Gains on disposal of PPE	–	–	486	10 553	10 553	10 553	10 553	21 000	16 614	17 313
<b>Total Revenue excluding capital transfers</b>	<b>246 800</b>	<b>269 501</b>	<b>273 139</b>	<b>313 520</b>	<b>352 973</b>	<b>352 973</b>	<b>352 973</b>	<b>398 527</b>	<b>461 131</b>	<b>437 891</b>

**Table 3: Percentage growth in revenue by main revenue source**

Description R thousand	2019/20 Medium Term Revenue & Expenditure Framework						
	Current Year 2018/2019	Budget Year 2019/20		Budget Year +1 2020/21		Budget Year +2 2021/22	
<b>Revenue By Source</b>							
Property rates	47 103	52 085	10.58%	57 570	10.53%	60 462	5.02%
Service charges - electricity revenue	123 171	152 259	23.62%	162 308	6.60%	173 020	6.60%
Service charges - water revenue	22 296	23 456	5.20%	24 699	5.30%	26 008	5.30%
Service charges - sanitation revenue	15 919	16 747	5.20%	17 635	5.30%	18 569	5.30%
Service charges - refuse revenue	16 258	17 103	5.20%	18 010	5.30%	18 964	5.30%
Rental of facilities and equipment	2 338	2 249	-3.81%	2 368	5.29%	2 493	5.28%
Interest earned - external investments	3 532	3 716	5.21%	3 913	5.30%	4 120	5.29%
Interest earned - outstanding debtors	4 414	4 644	5.21%	4 890	5.30%	5 149	5.30%
Fines, penalties and forfeits	15 794	16 616	5.20%	17 496	5.30%	18 423	5.30%
Licences and permits	1 127	1 185	5.15%	1 248	5.32%	1 314	5.29%
Agency services	3 534	3 718	5.21%	3 915	5.30%	4 122	5.29%
Transfers and subsidies	68 476	71 596	4.56%	118 960	66.15%	76 054	-36.07%
Other revenue	18 458	12 154	-34.15%	11 507	-5.32%	11 878	3.22%
Gains on disposal of PPE	10 553	21 000	99.00%	16 614	-20.89%	17 313	4.21%
<b>Total Revenue excluding capital transfers</b>	<b>352 973</b>	<b>398 527</b>	<b>12.91%</b>	<b>461 131</b>	<b>15.71%</b>	<b>437 891</b>	<b>-5.04%</b>

The table above presents the percentage increases for the different revenue categories. Service charges are the primary contributor followed by operational grants from provincial and national government. The third largest source is property rates, followed by fines and 'other revenue' which consists of various items such as income received from permits and licenses, building plan fees, connection fees, etc. The increase in gains on disposal of property relates to the planned development of the 300 hectares of land in the Strandfontein area.

Operating grants and transfers total R71,6m in the 2019/20 financial year and increase to R118.9m in 2020/21 and to R76m in 2021/22 of the MTREF. Equitable share increases over the MTREF (16.3%) in terms of the equitable share formula in line estimated growth in population.

The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

**Table 4: Operating transfers and grant receipts**

Description  R thousand	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>RECEIPTS:</b>									
–									
<b><u>Operating Transfers and Grants</u></b>									
<b>National Government:</b>	<b>44 789</b>	<b>46 875</b>	<b>50 517</b>	<b>56 022</b>	<b>56 226</b>	<b>56 226</b>	<b>60 379</b>	<b>63 198</b>	<b>67 339</b>
Local Government Equitable Share	41 409	44 100	47 561	52 340	52 340	52 340	56 540	60 937	65 789
Local government financial management grant	1 450	1 475	1 550	1 550	1 550	1 550	1 550	1 550	1 550
Municipal systems improvement	930	–	–	–	–	–	–	–	–
Integrated national electrification programme grant (municipal)	–	181	–	–	–	–	–	–	–
Expanded public works programme integrated grant for municipalities	1 000	1 119	1 406	1 630	1 630	1 630	1 578	–	–
Municipal infrastructure grant	–	–	–	502	706	706	711	711	–
<b>Provincial Government:</b>	<b>7 066</b>	<b>8 541</b>	<b>8 134</b>	<b>7 897</b>	<b>10 463</b>	<b>10 463</b>	<b>9 291</b>	<b>55 562</b>	<b>8 515</b>
Library service: Replacement funding for most vulnerable B3 municipalities	5 396	5 815	6 176	7 018	6 950	6 950	4 516	4 959	5 232
Community Library Service Grant	–	–	–	–	–	–	3 272	3 620	3 100
Western Cape Financial Management Capacity Building Grant	–	120	240	360	360	360	380	–	–
Municipal capacity building grant	–	–	250	–	–	–	–	–	–
Financial assistance to municipalities for maintenance and construction of transport infrastructure	59	64	65	78	78	78	73	83	83
Community development workers	144	113	111	111	–	–	–	–	–
Western Cape Financial Management Support Grant	1 155	220	–	330	330	330	330	–	–
Thusong services centres grant (Sustainability: Operational Support Grant)	200	31	65	–	–	–	120	–	100
Title deed restoration project	–	898	697	–	2 745	2 745	–	–	–
Municipal service delivery and capacity building grant	–	1 220	530	–	–	–	–	–	–
Local government graduate internship grant	–	60	–	–	–	–	–	–	–
Support for idp projects	112	–	–	–	–	–	–	–	–
Human settlements development grant	–	–	–	–	–	–	600	46 900	–
<b>Other Grant Providers</b>	<b>–</b>	<b>–</b>	<b>166</b>	<b>170</b>	<b>170</b>	<b>170</b>	<b>2 225</b>	<b>200</b>	<b>200</b>
SETA	–	–	166	170	170	170	200	200	200
Development bank of south Africa	–	–	–	–	–	–	2 025	–	–
<b>Total Operating Transfers and Grants</b>	<b>51 855</b>	<b>55 417</b>	<b>58 817</b>	<b>64 089</b>	<b>66 858</b>	<b>66 858</b>	<b>71 895</b>	<b>118 960</b>	<b>76 054</b>

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Municipality.

National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality. The Consumer Price Index (CPI) inflation is forecasted to be within the upper limit of the 3 to 6 per cent target band; therefore, municipalities are required to **justify all increases in excess of the projected inflation target for 2019/20** in their budget narratives, and pay careful attention to the differential incidence of tariff increases across all consumer groups. In addition, municipalities should include details of their revenue growth assumptions for the different service charges in the budget narrative.

The National Energy Regulator of South Africa (NERSA) published their approved “ESKOM Application for Retail Tariffs and Structural Adjustment (ERTSA)” that sets out the ESKOM tariff increase for municipalities that comes into effect on 1 July 2019. The NERSA document proposes a 15.63% increase for municipal electricity tariffs for 2019/20. Municipalities are urged to examine the cost structure of providing electricity services and to apply to NERSA for electricity tariff increases that reflect the total cost of providing the service so that they work towards achieving fully cost-reflective tariffs that will help them achieve financial sustainability.

Property rates were increased with 5.2%. The increase in trading service charges was set at 5.2% and the electricity tariffs were increased with an average of 13%.

The following table sets out the costing of services.

**Table 5: Costing of Services**

**Electricity**

<b>Description</b>	<b>Original Budget 2019/2020</b>	<b>Adjusted Budget 2018/19</b>
Employee costs	10 858 402	9 672 455
Depreciation & asset impairment	1 655 548	1 428 936
Finance charges	127 871	50 986
Bulk purchases	104 354 419	90 059 664
Inventory consumed	2 045 060	1 763 574
Contracted services	21 176	569 054
Debt impairment	5 471 249	5 190 938
Overheads (Departmental Charges)	2 537	2 412
Operational cost	8 245 133	8 623 077
<b>Total Expenditure</b>	<b>132 781 396</b>	<b>117 361 096</b>
Less: Recoveries - Internal Billing	5 102 432	4 666 334
Less: Service charges	152 259 023	123 470 642
<b>Surplus / Loss</b>	<b>24 580 060</b>	<b>10 775 880</b>
<b>Margin</b>	<b>15.62%</b>	<b>8.41%</b>

## Water

Description	Original Budget 2019/2020	Adjusted Budget 2018/19
Employee costs	10 697 456	9 017 835
Depreciation & asset impairment	1 808 251	1 556 494
Finance charges	-	-
Bulk purchases	4 694 753	4 833 523
Inventory Consumed	3 325 981	3 121 577
Contracted services	2 842 636	2 033 874
Debt impairment	1 050 000	996 205
Operational cost	3 168 969	3 805 073
Overheads (Departmental Charges)	1 499 964	1 371 082
<b>Total Expenditure</b>	<b>29 088 010</b>	<b>26 735 663</b>
Less: Recoveries - Internal Billing	2 362 084	2 245 327
Less: Service charges	23 455 641	22 296 237
<b>Surplus / Loss</b>	<b>-3 270 285</b>	<b>-2 194 099</b>
<b>Margin</b>	<b>-12.67%</b>	<b>-8.94%</b>

## Waste Water Management

Description	Original Budget 2019/2020	Adjusted Budget 2018/19
Employee costs	5 406 549	5 037 452
Depreciation & asset impairment	3 614 692	3 756 310
Finance charges	1 498 456	604 079
Inventory consumed	1 110 643	1 190 936
Contracted services	399 961	380 191
Debt impairment	1 030 501	977 705
Operational cost	1 810 208	1 886 373
Overheads (Departmental Charges)	1 125 206	1 028 525
<b>Total Expenditure</b>	<b>15 996 217</b>	<b>14 861 571</b>
Less: Recoveries - Internal Billing	5 510	5 238
Less: Service charges	16 747 023	15 919 225
<b>Surplus / Loss</b>	<b>750 806</b>	<b>1 057 654</b>
<b>Margin</b>	<b>4.48%</b>	<b>6.64%</b>

## Refuse Removal

Description	Original Budget 2019/2020	Adjusted Budget 2018/19
Employee costs	13 230 529	14 157 221
Depreciation & asset impairment	2 665 002	2 517 508
Inventory consumed	299 409	566 104
Finance charges	3 069 228	2 832 944
Contracted services	675 154	1 001 771
Debt impairment	1 020 250	967 979
Operational cost	1 879 935	1 879 577
Overheads (Departmental Charges)	-	-
<b>Total Expenditure</b>	<b>22 839 507</b>	<b>23 923 104</b>
Less: Service charges	17 158 758	16 257 959
<b>Surplus / Loss</b>	<b>-5 680 749</b>	<b>-7 665 145</b>
<b>Margin</b>	<b>-14.20%</b>	<b>-19.08%</b>

The consumer price index, as measured by CPI, is not an ideal indicator of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, accommodation, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity, chemicals, etc. The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the Municipality has undertaken the tariff setting process relating to service charges as follows.

### 1.4.1 Property rates

Property rates revenue should cover the cost of the provision of general community and support services. Determining the effective property rates tariff is therefore an integral part of the municipality's budgeting process. Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability were taken into consideration. A significant portion of the revenue is generated from the levying of property rates. National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and also prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties.

The following table sets out the categories of rateable properties for purposes of levying rates and the proposed rates for the 2019/20 financial year, to increase from 1 July 2019.



**Table 6 Comparison of proposed rates to be levied for the 2019/20 financial year**

	2017/2018 Total Tariff R/cent VAT Included	2018/2019 Total Tariff R/cent VAT Included	2019/2020 Total R/cent Excluded VAT	2019/2020 VAT R/cent 15%	2019/2020 Total Tariff R/cent VAT Included
Residential - 8(2)(a), 8(2)(k)	0.008510	0.008961	0.009427	-	0.009427
Public Service infrastructure - 8(2)(i)	0.002128	0.002241	0.002357	-	0.002357
Agriculture	0.001702	0.001792	0.001885	-	0.001885
Industrial - 8(2)(b)	0.010894	0.011471	0.012068	-	0.012068
Business and Commercial - 8(2)(c)	0.010894	0.011471	0.012068	-	0.012068
Mining Properties 8 2(e)	0.010894	0.011471	0.012068	-	0.012068
State owned - 8(2)(g)	0.010894	0.011471	0.012068	-	0.012068
Public benefit organisations - 8(2)(q)	0.002724	0.002868	0.003018	-	0.003018

#### 1.4.2 Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it does with electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

In addition National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective. Better maintenance of infrastructure and cost-reflective tariffs will ensure that the supply challenges are managed in future to ensure sustainability.

Tariff increases as from 1 July 2019 are indicated in the list of tariffs in Annexure B. Registered indigents receive 10 kℓ free water per 30-day period. The tariff structure is designed to charge higher levels of consumption a higher rate. Matzikama Municipality is facing drought conditions and have accordingly implemented water restrictions.

Water source management and maintenance of infrastructure together with cost-reflective tariffs will ensure that the supply challenges are managed in future to ensure the sustainability of water supply. More than R100m will be invested in water infrastructure over the 2019/20 to 21/22 MTREF budget period.

A summary of the proposed tariffs for households and business are as follows:

**Table 7 Comparison between current water charges and increases (Domestic)**

Description	2017/2018 Total Tariff R/cent VAT Included	2018/2019 Total R/cent Excluded VAT	2019/2020 Total R/cent Excluded VAT	2019/2020 VAT R/cent 15%	2019/2020 Total Tariff R/cent VAT Included
<b>Residential</b>					
0 - 6 kl	Free	6.82	6.24	0.94	7.17
7 - 12 kl	7.06	7.50	6.86	1.03	7.89
13 - 20kl	7.80	8.29	7.58	1.14	8.72
21 - 40kl	8.73	9.27	8.48	1.27	9.75
41 - 60kl	13.67	14.53	13.29	1.99	15.28
61 kl and more	17.17	18.24	16.69	2.50	19.19
<b>Business/Industry:</b>					
0 - 6 kl	6.88	7.31	6.69	1.00	7.69
7 - 20 kl	7.66	8.14	7.45	1.12	8.56
21 – 40 kl	8.01	8.51	7.78	1.17	8.95
41 – 60 kl	8.35	8.87	8.11	1.22	9.33
61 – 80 kl	9.23	9.81	8.97	1.35	10.32
81 - 100 kl	10.04	10.66	9.75	1.46	11.21
101 kl & 1000	12.00	12.75	11.66	1.75	13.41
1001 kl & more	37.57	39.90	36.50	5.48	41.98

Special rates apply to schools, churches and public benefit organisations, refer to Annexure B.

#### 1.4.3 Sale of Electricity and Impact of Tariff Increases

The National Energy Regulator of South Africa (NERSA) published their new multi-year price determination for the period from 2019/20 to 2021/22 on 7 March 2019. NERSA will shortly publish their “Municipal Tariff Guideline Increase, Benchmarks and Proposed Timelines for Municipal Tariff Approval Process for the 2019/20 financial year”. The National Energy Regulator of South Africa (NERSA) published their approved “ESKOM Application for Retail Tariffs and Structural Adjustment (ERTSA)” on 13 March 2019 which sets out the ESKOM tariff increase for municipalities that comes into effect on 1 July 2019. The NERSA document proposes a 15.63% increase for municipal electricity tariffs for 2019/20.

Based on the new multi-year price determination an increase of 13% was budgeted for electricity tariffs. Assumptions:

- Bulk purchase costs will increase with by 15.63% in line with Eskom’s electricity increase to municipalities;
- A Consumer Price Index (CPI) of 5.2% as indicated in MFMA Budget Circular 94;
- Salary and wage increases of CPI plus 1%, as indicated in the South African Local Government Association (SALGA) Circular No.31/2015: Salary and Wage Collective Agreement; and
- Repairs and maintenance, capital charges and other costs have increased by the CPI.

This is not an automatic increase in tariffs and the Municipality must still apply to the Energy Regulator for approval of our electricity tariffs in accordance with the provisions of Section 16(2) of the Energy Regulation Act, 2006 (Act No. 4 of 2006).

Registered indigents continue to be granted 50 kWh per 30-day period free of charge. The following table shows the impact of the proposed increases in electricity tariffs for domestic consumers:

**Table 8 Comparison between current electricity charges and increases (Domestic)**

	2017/2018 Total Tariff R/cent VAT Included	2018/2019 Total R/cent Excluded VAT	2019/2020 Total R/cent Excluded VAT	2019/2020 VAT R/cent 15%	2019/2020 Total Tariff R/cent VAT Included	2019/2020 % Tariff Increase
<b>Residential:</b>						
<b>Basic: 1 Phase</b>	242.14	242.14	237.92	35.69	273.61	12.99%
<b>Units (per kWh)</b>						
0 - 50	1.00	1.05	1.03	0.15	1.19	12.99%
51 - 250	1.28	1.36	1.33	0.20	1.53	12.58%
251 - 600	1.81	1.90	1.87	0.28	2.15	13.31%
601 & more	2.12	2.24	2.20	0.33	2.53	12.91%
<b>Basic: 3 Phase</b>	276.48	276.48	271.66	40.75	312.41	12.99%
<b>Units (per kWh)</b>						
0 - 50	1.00	1.05	1.03	0.16	1.20	13.80%
51 - 250	1.28	1.36	1.33	0.20	1.54	13.80%
251 - 600	1.81	1.90	1.87	0.28	2.16	13.80%
601 & more	2.12	2.24	2.20	0.33	2.55	13.80%

The stepped tariff for electricity as previously proposed by NERSA has continued. Tariffs remained the same for unit consumption across the different brackets of the sliding scale. The municipality will maintain the current stepped structure for the electricity tariffs.

The full proposed tariffs are included in Annexure B.

#### **1.4.4 Sanitation services and impact of tariff increases**

A tariff increase of 5.2% for sanitation (basic & consumption) is proposed from 1 July 2019. This is based on tariff increases related to inflation increases as mentioned earlier in this report.

The following factors inform the proposed tariffs:

- Overhead costs of machinery and vehicles applied in the delivery of the service
- Labour cost

The following table shows the impact of the proposed increases in sanitation tariffs for domestic consumers:

**Table 9 Comparison between current sanitation charges and increases (Domestic)**

	2017/2018 Total Tariff R/cent VAT Included	2018/2019 Total R/cent Excluded VAT	2019/2020 Total R/cent Excluded VAT	2019/2020 VAT R/cent 15%	2019/2020 Total Tariff R/cent VAT Included	2019/2020 % Tariff Increase
Residential	187.63	199.31	182.32	27.35	209.67	5.20%
Business/Govt	223.95	237.89	217.61	32.64	250.26	5.20%

**1.4.5 Waste removal services and impact of tariff increases**

Services relevant to refuse removal, refuse dumps and solid waste disposal mechanisms must comply with stringent legislative requirements such as the National Environmental Management Waste Act, No 59 of 2008. This service will receive further revision of the solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term.

An increase of 5.2% in the waste removal tariff is proposed from 1 July 2019. The following factors inform the proposed tariffs:

- Overhead costs of machinery and vehicles applied in the delivery of the service
- Labour cost

The following table shows the impact of the proposed increases in waste removal tariffs for domestic consumers:

**Table 10 Comparison between current waste removal charges and increases (Domestic)**

	2017/2018 Total Tariff R/cent VAT Included	2018/2019 Total R/cent Excluded VAT	2019/2020 Total R/cent Excluded VAT	2019/2020 VAT R/cent 15%	2019/2020 Total Tariff R/cent VAT Included	2019/2020 % Tariff Increase
Residential	151.32	160.73	147.04	22.06	169.09	5.20%

All proposed refuse tariffs are listed in Annexure B.

**Table 11 MBRR Table SA14 – Household bills**

Description	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework			
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20 % incr.	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>Rand/cent</b>										
<b>Monthly Account for Household - 'Middle Income Range'</b>										
<b>Rates and services charges:</b>										
Property rates	609	645	495	512	512	512	5.2%	538	567	598
Electricity: Basic levy	190	204	211	211	211	211	12.6%	238	251	264
Electricity: Consumption	1 402	1 503	1 551	1 616	1 616	1 616	13.0%	1 825	1 924	2 027
Water: Consumption	147	157	167	213	213	213	5.2%	224	236	249
Sanitation	144	154	163	173	173	173	5.2%	182	192	203
Refuse removal	114	121	132	140	140	140	5.2%	147	155	163
Other	–	–	–	–	–	–	–	–	–	–
<b>sub-total</b>	<b>2 606</b>	<b>2 785</b>	<b>2 719</b>	<b>2 864</b>	<b>2 864</b>	<b>2 864</b>	<b>10.1%</b>	<b>3 154</b>	<b>3 325</b>	<b>3 504</b>
VAT on Services	280	300	306	353	353	353	11.2%	392	414	436
<b>Total large household bill:</b>	<b>2 886</b>	<b>3 084</b>	<b>3 025</b>	<b>3 217</b>	<b>3 217</b>	<b>3 217</b>	<b>10.2%</b>	<b>3 547</b>	<b>3 738</b>	<b>3 940</b>
<b>% increase/-decrease</b>		<b>6.9%</b>	<b>(1.9%)</b>	<b>6.4%</b>	<b>–</b>	<b>–</b>		<b>10.2%</b>	<b>5.4%</b>	<b>5.4%</b>
<b>Monthly Account for Household - 'Affordable Range'</b>										
<b>Rates and services charges:</b>										
Property rates	435	461	354	362	362	362	5.2%	381	402	423
Electricity: Basic levy	190	204	211	211	211	211	12.6%	238	251	264
Electricity: Consumption	573	637	658	671	671	671	13.0%	758	799	842
Water: Consumption	114	121	129	173	173	173	5.2%	182	191	202
Sanitation	144	154	163	173	173	173	5.2%	182	192	203
Refuse removal	114	121	132	140	140	140	5.2%	147	155	–
Other	–	–	–	–	–	–	–	–	–	–
<b>sub-total</b>	<b>1 570</b>	<b>1 698</b>	<b>1 646</b>	<b>1 730</b>	<b>1 730</b>	<b>1 730</b>	<b>9.1%</b>	<b>1 888</b>	<b>1 990</b>	<b>1 934</b>
VAT on Services	159	173	181	205	205	205	10.2%	226	238	227
<b>Total small household bill:</b>	<b>1 729</b>	<b>1 871</b>	<b>1 827</b>	<b>1 935</b>	<b>1 935</b>	<b>1 935</b>	<b>9.3%</b>	<b>2 114</b>	<b>2 228</b>	<b>2 161</b>
<b>% increase/-decrease</b>		<b>8.3%</b>	<b>(2.4%)</b>	<b>5.9%</b>	<b>–</b>	<b>–</b>		<b>9.3%</b>	<b>5.4%</b>	<b>(3.0%)</b>
<b>Monthly Account for Household - 'Indigent' Household receiving free basic services</b>										
<b>Rates and services charges:</b>										
Property rates	261	276	212	134	134	134	5.2%	141	149	157
Electricity: Basic levy	–	–	–	–	–	–	–	–	–	–
Electricity: Consumption	336	351	405	354	354	354	14.4%	405	427	450
Water: Consumption	80	86	91	84	84	84	5.2%	88	93	98
Sanitation	–	–	–	–	–	–	–	–	–	–
Refuse removal	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–	–
<b>sub-total</b>	<b>676</b>	<b>713</b>	<b>708</b>	<b>572</b>	<b>572</b>	<b>572</b>	<b>10.9%</b>	<b>634</b>	<b>669</b>	<b>705</b>
VAT on Services	94	100	107	66	66	66	12.6%	74	78	82
<b>Total small household bill:</b>	<b>770</b>	<b>813</b>	<b>815</b>	<b>638</b>	<b>638</b>	<b>638</b>	<b>11.1%</b>	<b>708</b>	<b>747</b>	<b>787</b>
<b>% increase/-decrease</b>		<b>5.5%</b>	<b>0.3%</b>	<b>(21.8%)</b>	<b>–</b>	<b>–</b>		<b>11.1%</b>	<b>5.4%</b>	<b>5.4%</b>

#### 1.4.6 Revenue enhancement strategies

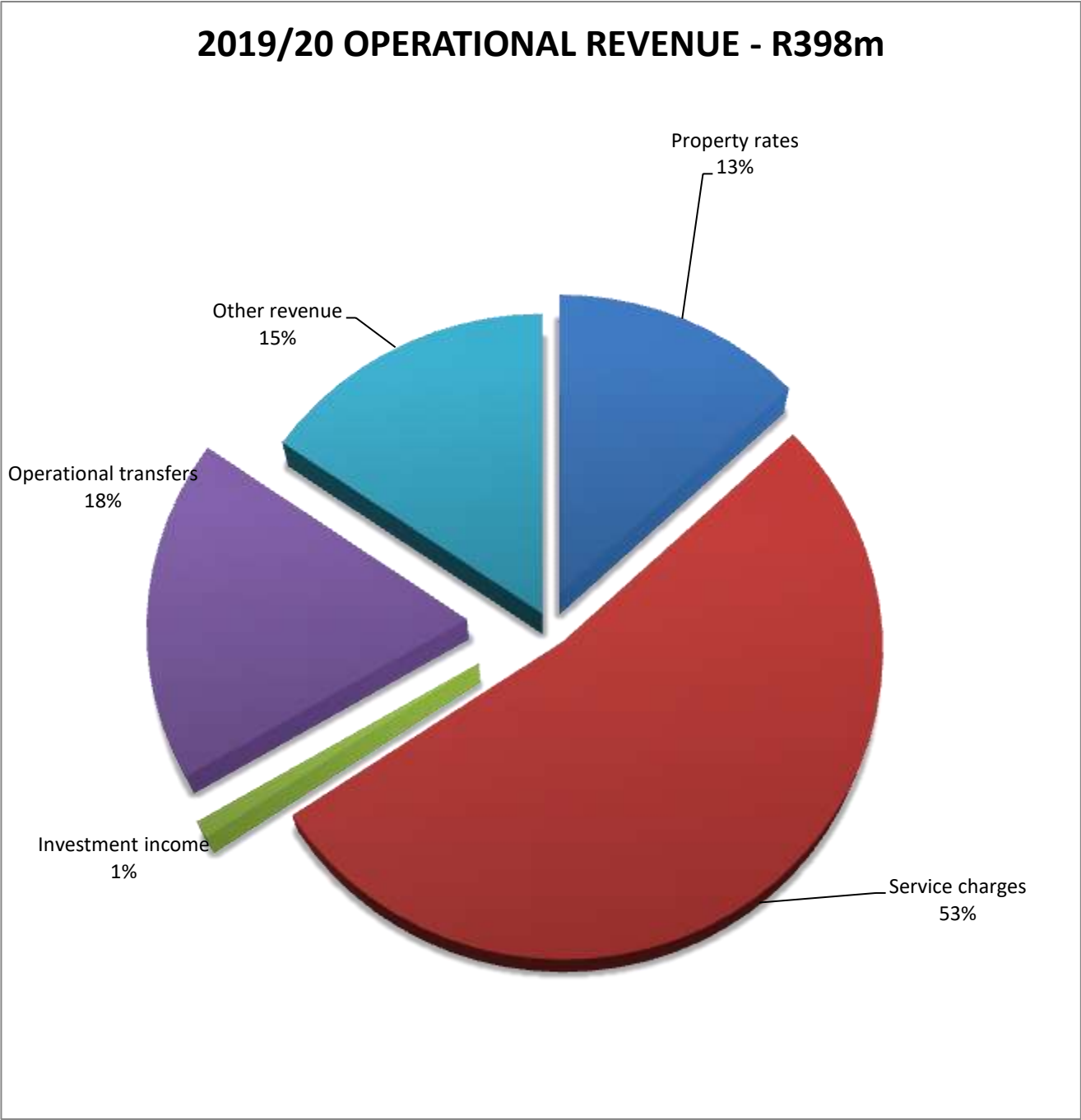
- Investment in infrastructure
- The sale of non-strategic property.
- The under-recovery of trading services must receive strategic priority.
- Land audit to ensure all properties are taxed at the appropriate rates.
- Creating an environment that will attract investment.
- Growing the benefits embedded in tourism

We shall continue to review consumer usage patterns to identify tampering of both electricity and water meters. No reconnection of the supply may take place before the fine is settled in full. Electricity supply must immediately be disconnected at source.

The review of the various property usage deviations as contained in the Rates Act must be scrutinised to ensure that the income from the various industries are maximized.

The following table gives a breakdown of the main expenditure categories for the 2019/20 financial year.

**Figure 1 Main operational revenue categories for the 2019/2020 financial year.**



## 1.5 Operating Expenditure Framework

The Municipality's expenditure framework for the 2019/20 budget and MTREF is informed by the following drivers:

- Balanced budget constraints (cash operating expenditure should not exceed cash operating revenue);
- Planned maintenance of infrastructure assets;
- Funding of the budget over the MTREF as informed by Section 18 and 19 of the MFMA;
- Implementation of cost containment measures

The following table is a high level summary of the 2019/20 budget and MTREF (classified per main type of operating expenditure):

**Table 12 Summary of operating expenditure by functional classification item**

Description  R thousand	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>Expenditure By Type</b>										
Employee related costs	93 529	102 679	111 255	122 493	138 398	138 398	138 398	158 446	167 034	176 144
Remuneration of councillors	5 908	6 100	6 839	7 226	6 935	6 935	6 935	7 552	8 042	8 565
Debt impairment	13 093	15 599	17 675	13 478	17 800	17 800	17 800	19 726	19 718	20 751
Depreciation & impairment	12 899	13 636	13 953	15 030	16 277	16 277	16 277	19 079	21 997	22 835
Finance charges	8 313	7 817	8 242	10 099	7 625	7 625	7 625	9 373	5 590	7 600
Bulk purchases	82 656	90 355	87 612	94 443	94 443	94 443	94 443	109 049	116 137	123 686
Other materials	–	–	8 529	11 702	13 098	13 098	13 098	17 648	64 761	18 913
Contracted services	–	–	7 748	10 786	17 309	17 309	17 309	17 695	13 639	14 319
Transfers and subsidies	957	1 027	1 428	1 511	1 537	1 537	1 537	2 633	2 229	2 349
Other expenditure	37 782	37 583	26 157	26 539	39 408	39 408	39 408	37 165	38 826	40 543
Loss on disposal of PPE	1 025	1 382	649	–	–	–	–	–	–	–
<b>Total Expenditure</b>	<b>256 162</b>	<b>276 179</b>	<b>290 088</b>	<b>313 308</b>	<b>352 830</b>	<b>352 830</b>	<b>352 830</b>	<b>398 365</b>	<b>457 974</b>	<b>435 707</b>

### 1.5.1 Employee related cost

The budgeted allocation for employee related costs and remuneration of councillors for the 2019/20 financial year equates to R166m which equals to 41.6% of the total operating expenditure which is almost in line with the NT norm of 25% – 40%. This ratio shall improve over the MTREF budget period. The increase in employee cost is mainly due to critical vacancies that that were filled in the latter part of the 2018/19 financial year and the benchmarking process that was concluded in March 2019. Of this total, the non-current provisions relating to employee related cost amounts to R3m (post-retirement benefits) and therefore not cash remuneration. Salary and wage increases are budgeted at 6.5% in accordance with paragraphs 6.3 to 6.5 of the Salary and Wage Collective Agreement for 2018-2021. The cost associated with the remuneration of councillors (2% of total operating expenditure) is determined by the Minister of Cooperative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998).

### 1.5.2 Debt Impairment

The provision of debt impairment and write-off of bad debts for consumer accounts has been calculated based on the annual collection rate and the Debt Write-off Policy of the Municipality. For the 2019/20 financial year this amount equates to R19.7. Impairment for traffic fines, according to the provisions of IGRAP1, has been budgeted according to the trends from the three previous financial years.

### **1.5.3 Depreciation and asset impairment**

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Budget appropriations in this regard equate total R19m for the 2019/20 financial year and equates to 5% of the total operating expenditure.

### **1.5.4 Finance charges**

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital) and landfill site provisions. Finance charges make up 2% of operating expenditure. Finance charges will decrease over the MTREF period in line with the redemption of long term borrowings.

### **1.5.5 Bulk purchases**

Bulk purchases are directly informed by the purchase of electricity from Eskom and the purchase of water from LORWUA. The annual electricity price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures account for distribution losses. Bulk purchases make up 28% of operating expenditure.

### **1.5.6 Other materials**

Other materials, now classified as Inventory in mSCOA, comprise amongst others the purchase of materials for maintenance, cleaning materials, fuel, etc. In line with the Municipality's repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability of the Municipality's infrastructure. Other materials make up 4% of operating expenditure.

### **1.5.7 Contracted services**

Contracted services consist primarily of information, communication and technology services and internal audit services. Contracted services have been identified as an area for the municipality to implement efficiencies. Since the 2016/17 financial year, financial statements are prepared in-house by the finance directorate. Contracted services make up 4% of operating expenditure.

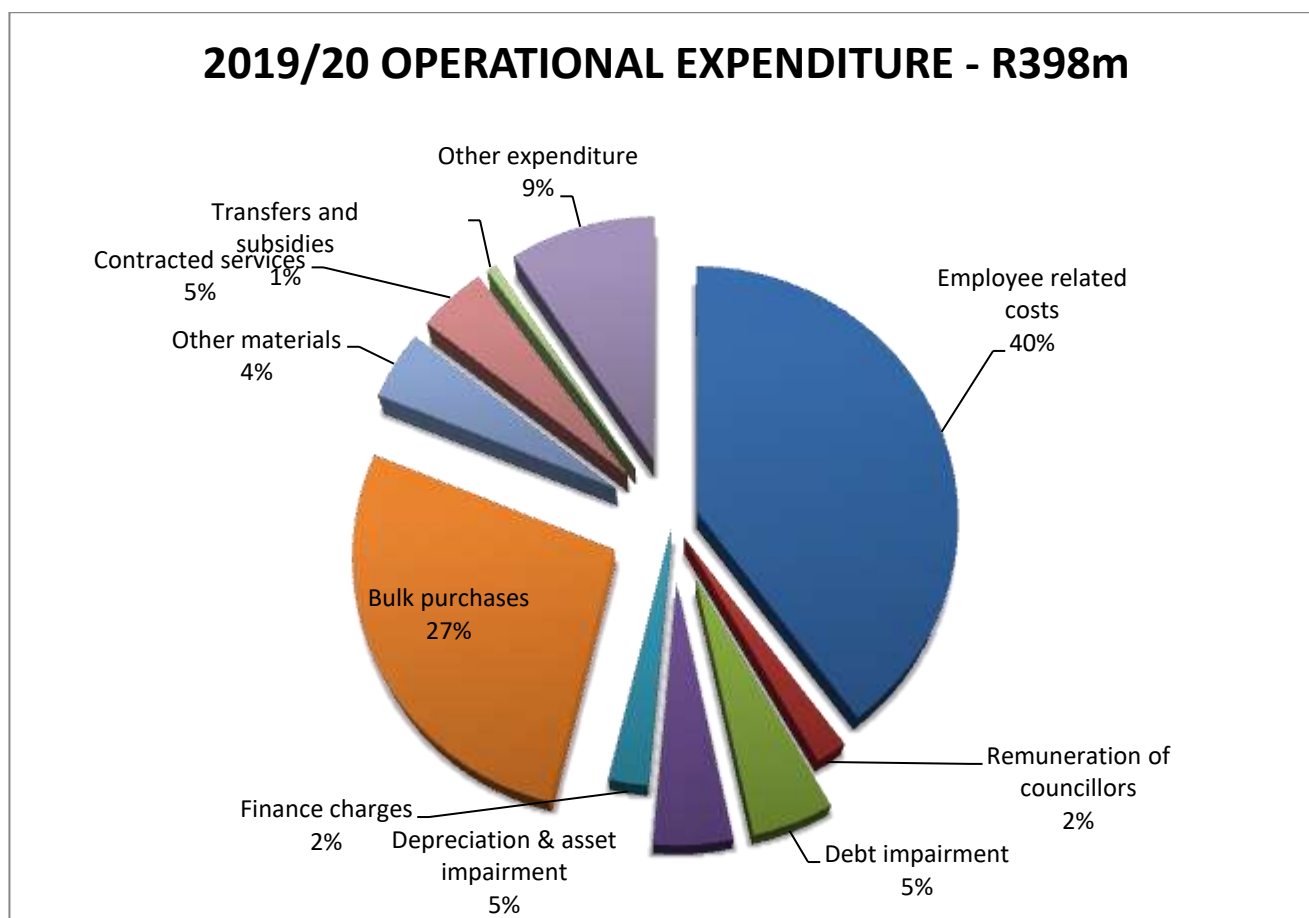
### **1.5.8 Other expenditure**

Other expenditure consists primarily of repairs and maintenance and other line items relating to the daily operations of the municipality. Other Expenditure, now classified as Operational Costs in mSCOA, makes up 9% of operational expenditure. The introduction and reclassification resulting from mSCOA has caused a shift in expenditure previously classified and budgeted under general expenses to Inventory (materials), contracted services and operational costs. The National Treasury A-Schedules, although revised, did not adequately address the mSCOA classifications relating to types of expenditure.

The following table gives a breakdown of the main expenditure categories for the 2019/20 financial year.



**Figure 2 Main operational expenditure categories for the 2019/20 financial year.**



### 1.5.9 Repairs and Maintenance

Aligned to the priority being given to preserving and maintaining the Municipality's current infrastructure, the 2019/20 budget and MTREF provide for continuing increases in the area of asset maintenance, as informed by the asset maintenance strategy of the Municipality. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services. The increase in PPE resulting from annual additions funded by conditional grants makes it nearly impossible to achieve the 8% norm for R&M. Considering these cost drivers, the following table is a consolidation of all the expenditures associated with repairs and maintenance.

WC011 Matzikama - Supporting Table SA1 Supporting detail to 'Budgeted Financial Performance'										
Description	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>R thousand</b>										
Employee related costs	–	–	–	8 969	–	–	–	–	–	–
Other materials	–	8 719	7 531	1 284	9 767	9 767	9 767	13 715	14 147	14 905
Contracted Services	–	–	–	1 284	1 689	1 689	1 689	1 936	1 906	2 008
Other Expenditure	8 272	2 523	1 298	1 226	1 466	1 466	1 466	998	1 052	1 109
<b>Total Repairs and Maintenance Expenditure</b>	<b>8 272</b>	<b>11 242</b>	<b>8 829</b>	<b>11 479</b>	<b>12 922</b>	<b>12 922</b>	<b>12 922</b>	<b>16 650</b>	<b>17 105</b>	<b>18 022</b>

## 1.6 Capital expenditure

The following table is a breakdown of budgeted capital expenditure by vote and functional area:

**Table 13 2019/20 Medium-term capital budget per vote**

Description	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>R thousand</b>										
<b>Governance and administration</b>	459	430	2 090	1 600	2 128	2 128	2 128	2 900	500	–
Executive and council	104	125	660	900	1 250	1 250	1 250	750	300	–
Finance and administration	253	305	1 431	700	878	878	878	2 150	200	–
Internal audit	102	–	–	–	–	–	–	–	–	–
<b>Community and public safety</b>	2 045	1 700	2 743	2 225	3 013	3 013	3 013	27 653	1 975	9 890
Community and social services	513	472	346	930	1 612	1 612	1 612	1 701	700	–
Sport and recreation	1 532	1 229	2 397	1 295	1 341	1 341	1 341	6 372	250	4 300
Public safety	–	–	–	–	60	60	60	1 660	1 025	390
Housing	–	–	–	–	–	–	–	17 920	–	5 200
<b>Economic and environmental services</b>	7 547	11 912	17 337	22 636	22 280	22 280	22 280	13 822	21 810	17 100
Planning and development	129	811	42	185	120	120	120	389	–	–
Road transport	7 418	11 102	17 296	22 451	22 160	22 160	22 160	13 433	21 810	17 100
<b>Trading services</b>	19 722	11 300	18 484	33 402	45 850	45 850	45 850	47 200	38 700	39 107
Energy sources	2 425	3 627	1 950	6 900	4 653	4 653	4 653	7 810	8 000	5 000
Water management	7 990	760	11 772	19 510	33 605	33 605	33 605	18 915	25 750	34 107
Waste water management	4 467	6 584	2 740	1 892	3 551	3 551	3 551	20 375	4 950	–
Waste management	4 839	329	2 022	5 100	4 042	4 042	4 042	100	–	–
<b>Other</b>	–	–	–	–	–	–	–	30	–	–
<b>Total Capital Expenditure - Functional</b>	<b>29 773</b>	<b>25 343</b>	<b>40 655</b>	<b>59 862</b>	<b>73 271</b>	<b>73 271</b>	<b>73 271</b>	<b>91 605</b>	<b>62 985</b>	<b>66 097</b>

### 1.6.1 Infrastructure expenditure

For 2019/20 an amount of R76.8m has been appropriated for the development of infrastructure which includes R17.9m for the construction of low cost houses. Infrastructure development represents 90% of the total capital budget of R91,6m. The capital budget decreases to R62,9 and R66m respectively for each of the outer MTREF budget years.

Water management expenditure amounting to R78.7m is provided over the MTREF budget period (2019/20-R18.9m, 2020/21-R25.7m and 2021/22-R34.1m). Waste water management expenditure amounting to R25.3m is provided over the MTREF budget period (2019/20-R20.3m, 2020/21-R4.9m).

Energy sources expenditure amounting to R20.8m is provided over the MTREF budget period (2019/20-R7.8m, 2020/21-R8m and 2021/22-R5m).

## 1.6.2 Capital Projects per Ward for 2019/20

### Ward 1

Lutzville Irrigation Sports Field	R4 600 000
Lutzville New Bus Route for Housing Project	R1 111 273
Lutzville Construction of 332 RDP Houses	R16 920 000
Lutzville Upgrade of Sewerage Network for Housing Project	R8 000 000
Lutzville: Upgrade Gravel Roads Pave	<u>R1 850 054</u>
	<b><u>R32 481 327</u></b>

### Ward 2

Ebenhaeser Refurbishment of Water Treatment works	R2 700 000
Ebenhaeser Irrigation Sports Field	<u>R7 400 000</u>
	<b><u>R10 100 000</u></b>

### Ward 3

Vredendal Construction of houses-Phase 5	R1 000 000
Vredendal Upgrading of Bulk Electricity	<u>R7 250 000</u>
	<b><u>R8 250 000</u></b>

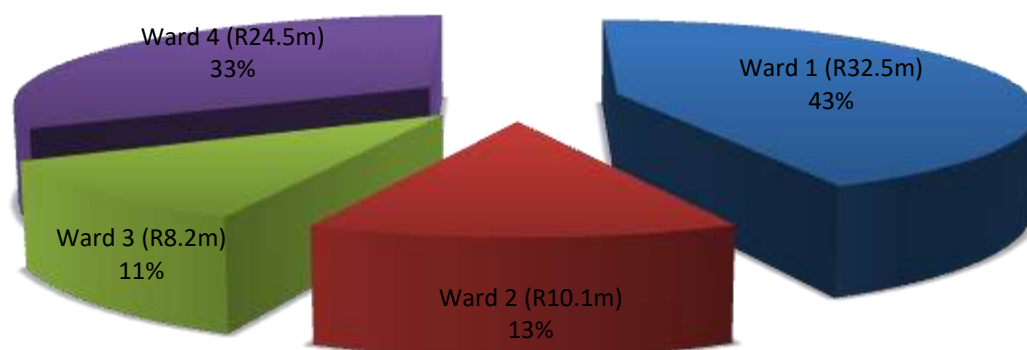
### Ward 8

Koekenaap Upgrading of existing Bulk Water Infrastructure	R5 300 000
Koekenaap Final Affluent Irrigation and Sportsfield Upgrade	R4 800 000
Koekenaap: Roads and Stormwater Ph1.1	R4 395 174
Bitterfontein Refurbishment of Water Scheme	<u>R10 000 000</u>
	<b><u>R24 495 174</u></b>

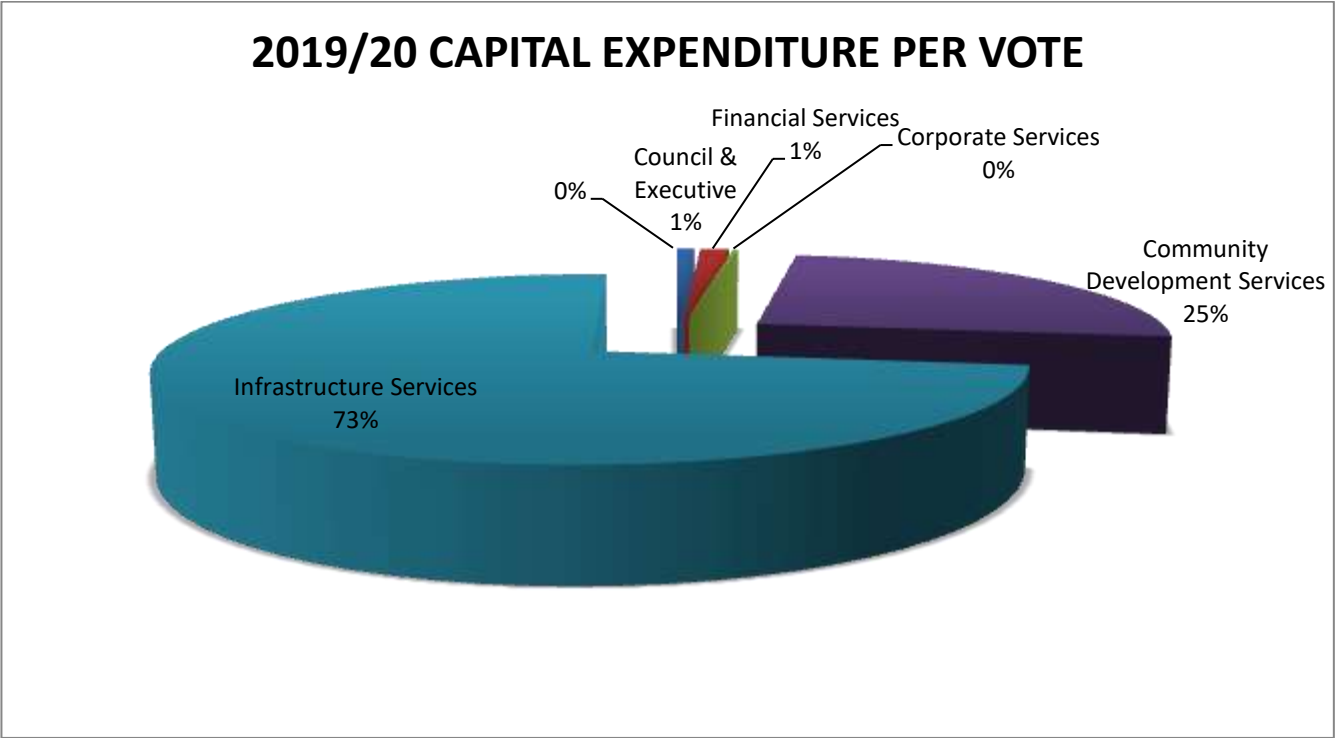
Further detail relating to asset classes and proposed capital expenditure is contained in Annexure A. Table A9 of Annexure A (Asset Management). In addition SA34a, SA34b, SA34c and SA34e in Annexure A provides a detailed breakdown of the capital programme relating to new asset construction, capital asset renewal as well as operational repairs and maintenance by asset class.

## 1.6.3 Capital Projects per ward 2019/20

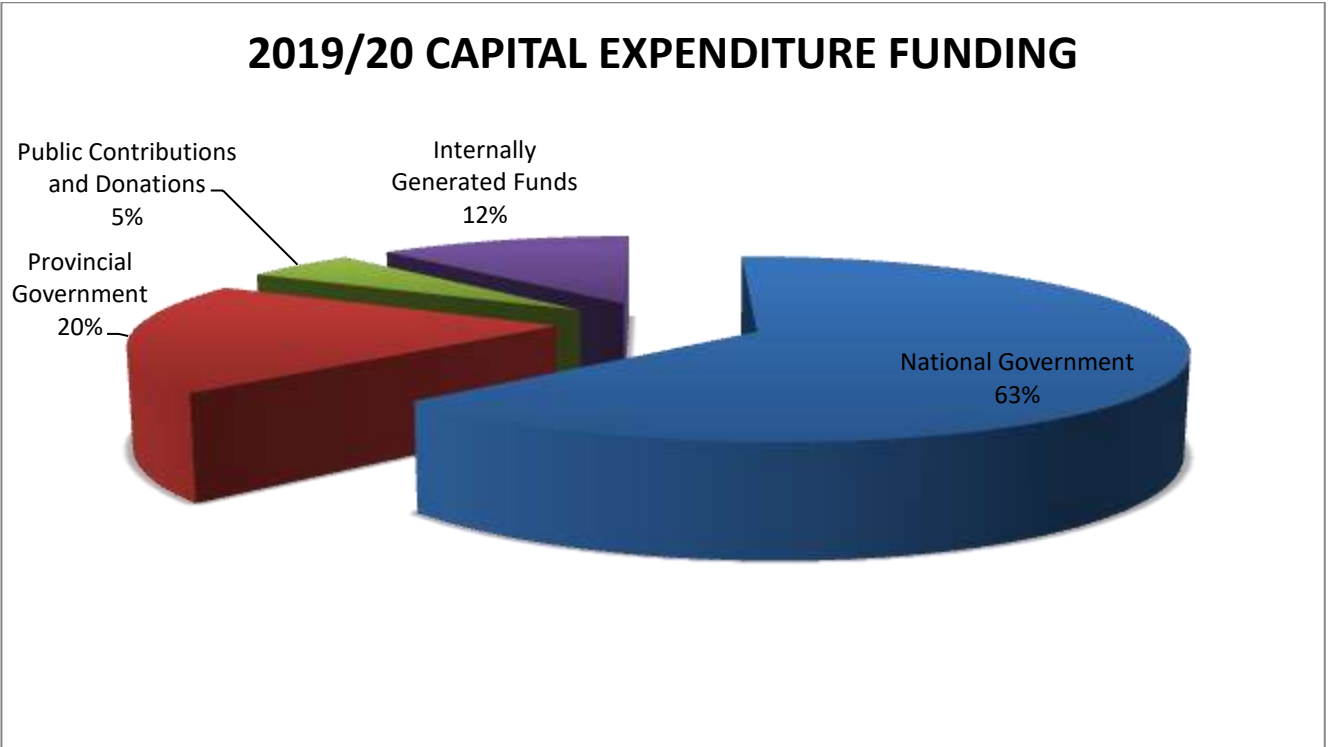
### 2019/20 CAPITAL EXPENDITURE PER WARD (R75.2m)



1.6.4 Breakdown of the capital budget to be spent per vote for 2019/20.



1.6.5 Breakdown of the funding of the capital budget for 2019/20



## 1.7 Annual Budget Tables

The following budget tables can be found in Annexure A (Part 1, Section4)

- a) Table A1 - Budget Summary
- b) TableA2 -Budgeted Financial Performance (revenue and expenditure by standard classification)
- c) Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)
- d) Table A4 - Budgeted Financial Performance (revenue and expenditure)
- e) Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding
- f) Table A6 - Budgeted Financial Position
- g) Table A7 - Budgeted Cash Flows
- h) Table A8 - Cash backed reserves/accumulated surplus reconciliation
- i) Table A9 - Asset Management
- j) Table A10 - Basic service delivery measurement
- k) Supporting Tables SA1 –SA38

## 2. SUPPORTING DOCUMENTATION

### 2.1 Overview of annual budget process

#### Political overview of the budget process

Section 53 of the MFMA stipulates that the Mayor should exercise general political guidance over the budgeting process and must direct the drafting of the budget.

#### Schedule of Key Deadlines in respect of the budget process [MFMA section 21(1)(b)]

The Act provides that the formal budget process must commence with the tabling by the Mayor in Council by way of a schedule setting out the key budget deadlines. This was compiled and approved by Council at the end of August 2018.

#### Process followed to integrate the revision of the IDP and drafting of the budget

The budgeting process is integrated with the IDP and the outcome of the consultation upon the IDP compilation is taken into consideration in the budgeting process.

#### Process for tabling of the budget before Council for consultation

A statutory period of consultation preceded the tabling of the draft budget before Council on 26 March 2019. Meetings with the local community were advertised in the local press to inform consultation processes. The Executive Mayor shall consider the outcomes of these consultation meetings and a report in which the reactions are set out shall be tabled at the same meeting where the budget is to be tabled for final approval.

#### Process for approval of the budget

The budget must be finally approved by Council by 31 May 2019.

#### Process and media used to provide information on the budget to the community

All budget documentation, the MTREF, as well as tariffs and policies, shall be available at Council libraries and offices for perusal. It shall also be available on Council's website. Advertisements informing the public about the availability of these documents and the schedules for the public hearings on the IDP and the Budget shall be published in all local newspapers and be put up at municipal offices and libraries.

## Budget process 2019/2020

The budget process in Matzikama complies with the requirements of the MFMA. A schedule of key deadlines was compiled for tabling before Council by the Mayor before the end of August 2018.

The proposed budget must be tabled before Council by the end of March 2019. This is followed by a period of consultation. After the consultation process, the Mayor needs to consider any representations and decide whether any amendments need to be made to the budget as envisaged by section 23 of the MFMA. The final budget must be agreed upon by Council before the end of May 2019.

The Municipality's budget was once again drafted on a 3-year basis. It takes the National and Provincial 3-year allocations to the Municipality into account. It is therefore necessary to plan and budget on a 3-year basis in order to take account of resource restrictions as well as capacity restrictions in respect of service delivery. The MFMA requires that municipalities draft 3-year budgets to ensure more thorough financial planning and to make provision for seamless service delivery. As was the case last year, however, both capital and operating revenue and expenditure figures in the outer years in the current uncertain economic climate are indicators of service needs and not actual figures.

The municipality shall set out measurable performance objectives to link the financial inputs of the budget with service delivery on the ground. This shall be done in the form of quarterly service targets and monthly financial targets contained in the Service Delivery and Budget Implementation Plan (SDBIP). This must be agreed upon by the Mayor within 28 days after agreement on the final budget and forms the basis for the Municipality's monitoring and management tool during the next year.

### **2.2 Overview of alignment of annual budget with IDP**

(See supporting table SA4 – 6)

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realised through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area.

In order to ensure integrated and focused service delivery between all spheres of government it was important for the Municipality to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

Local priorities were identified as part of the IDP review process which is directly aligned to that of the national and provincial priorities. The key performance areas include the provision of electricity, water, sanitation, waste removal, housing, roads, municipal planning services and maintaining the infrastructure of the Municipality.

It also encompasses economic growth and development that leads to sustainable job creation by:

- Developing and implementing a clear structural plan for the Municipality;
- Ensuring planning processes function in accordance with set timeframes;
- Facilitating the use of labour intensive approaches in the delivery of services and the building of infrastructure.

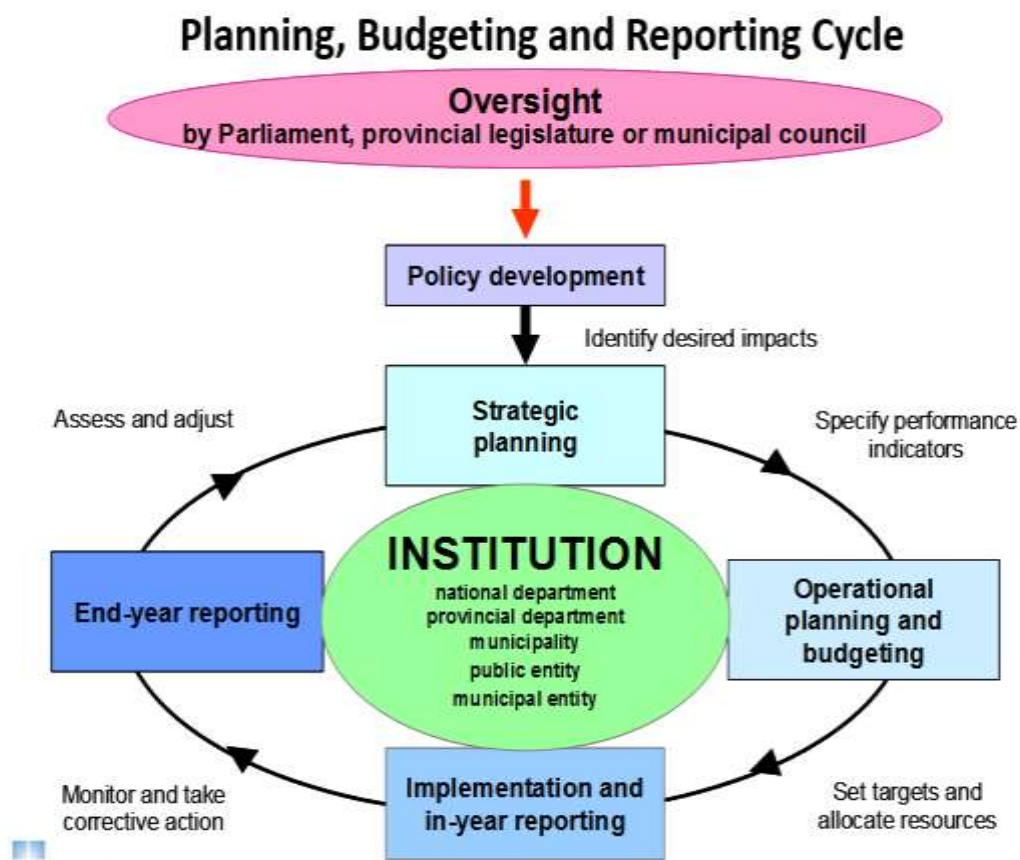
### 2.3 Measurable performance objectives and indicators

(See supporting table SA7)

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Municipality has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality monitors, assesses and reviews organisational performance which in turn is directly linked to individual performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly at each quarter, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages. The planning, budgeting and reporting cycle can be graphically illustrated as follows:

**Figure 3: Planning, budgeting and reporting cycle**



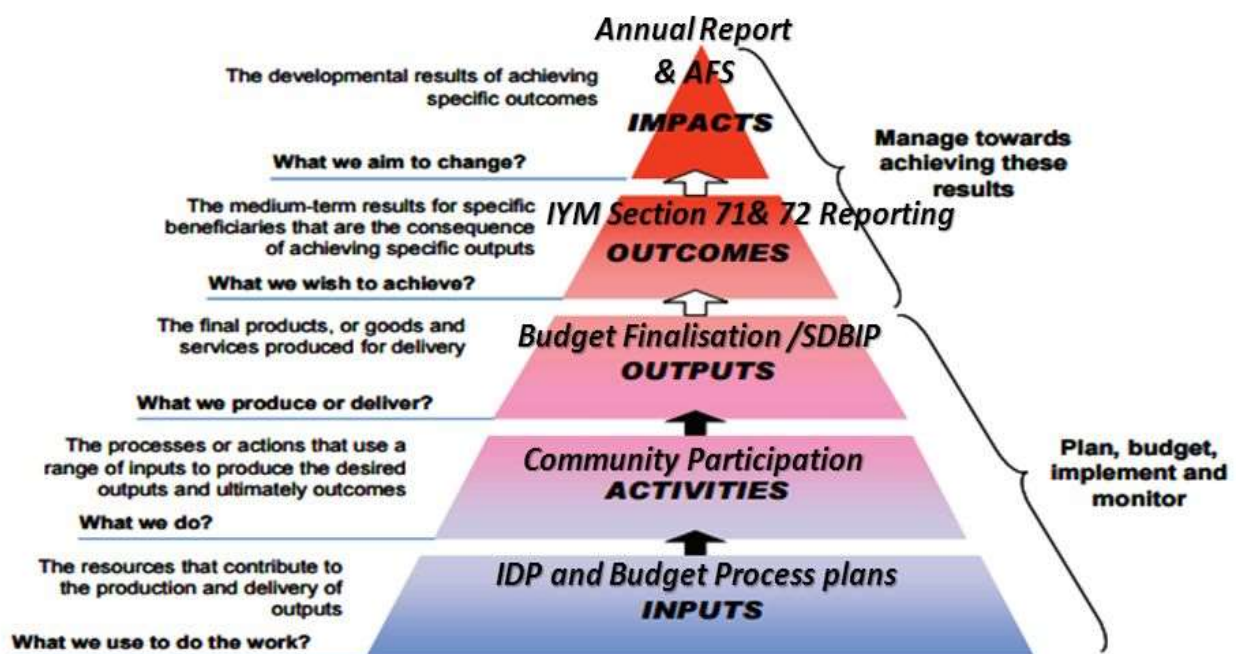


The integrated performance of the Municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations and includes the following:

- Planning (setting goals, objectives, targets and benchmarks);
- Monitoring (regular monitoring and checking on the progress against plan);
- Measurement (indicators of success);
- Review (identifying areas requiring change and improvement);
- Reporting (what information, to whom, from whom, how often and for what purpose); and
- Improvement (making changes where necessary).

The performance information concepts used by the Municipality in its integrated performance management system are aligned to the Framework of Managing Programme Performance Information issued by the National Treasury:

**Figure 4 Definition of performance information concepts**



## 2.4 Overview of budget-related policies

*The below-mentioned policies are included in this budget documentation*

- Credit Control and Debt Collection Policy
- Municipal Property Rates Policy
- Funding and Reserve Policy
- Supply Chain Management Policy
- Asset Management Policy
- Cash management and Investment Policy including Borrowing Policy
- Indigent Policy
- Tariff Policy – including electricity, water, sanitation and refuse removal/Solid waste
- Long Term Financial Planning Policy included in the Cash Management and Investment Policy
- Travel and Subsistence Policy
- Virement Policy
- Budget Implementation and Monitoring Policy



## 2.5 Overview of budget assumptions

### Budget assumptions

Budgets are drafted in uncertain conditions. In order to develop credible and responsive budgets, assumptions must be made about internal and external factors that may affect the budget. This Section offers a detailed summary of the assumptions used in drafting the budget.

### External Factors

There is no real growth in the municipal area, and the only growth in the number of households relate to the building of RDP housing and the servicing of erven for those on the housing backlog waiting list which does not add to the revenue or tax base. Job opportunities are limited as a result of limited or no growth, and the National budget has identified job creation as a priority and suggested that municipal capital and maintenance projects should assist in this by implementing labour-intensive projects within municipality's financial resource envelope.

### Funding compliance

The budget will be fully cash-backed based on the premise of the current debtors' collection rate and that same does not deteriorate and in this regard the worst case scenario was used in the preparation of the budget. The budget is considered credible as various revenue enhancing strategies were investigated and implemented.

## 2.6 Overview of budget funding

### Funding of the Budget

Section 18(1) of the MFMA determines that an annual budget can only be funded from:

- Realistically expected revenue to be collected;
- Cash-backed accumulated funds of preceding years' surpluses not earmarked for other purposes; and
- Borrowed funds, **but only for the capital budget**.
- Compliance with this requirement effectively requires that Council 'balances' its budget by ensuring that the budgeted outflow balances with a combination of planned inflow.

### A Credible Budget

A credible budget, among other things, is a budget, which:

- Only funds activities which are in line with the revised IDP and vice versa and which ensure that the IDP is realistically achievable while taking account of the financial restrictions of the municipality;
- Is achievable in respect of agreed service delivery and performance targets;
- Contains revenue and expenditure projections that are in line with current and previous audited performance outcomes and that are supported by documented evidence of future assumptions;
- Does not compromise the financial viability of the municipality (ensures that the financial position is contained within generally accepted prudent limits and that obligations can be met in the short, medium and long term); and
- Provides managers with suitable levels of delegation to enable them to fulfil their financial managerial responsibilities.

A budget sets out certain service delivery levels and accompanying financial implications. Consequently the community must realistically expect to receive these promised service levels and to understand the accompanying financial implications. High under spending due to under collection of revenue or poor planning is a clear example of a budget that is not credible and realistic. Furthermore, budgets tabled as early as 90 days before the start of the budget year, must remain credible and fairly close to the final approved budget.

### Selling of assets

The Municipality is evaluating its land and asset ownership as part of its longer term financial strategy. The sale of land is therefore continuously being investigated in order to improve the cash position of the municipality. Whilst the selling of property can never be a sustainable way of funding a municipality, cognisance must be taken of the tax base of this municipality and the multiplier effect of low cost housing requirements.

### Taking up Loans

The MFMA stipulates the conditions within which municipalities may incur short or long term debt. The Act stipulates that short term debt may be used to meet immediate cash flow needs, but that it must be fully repaid within the financial year in which it was incurred. Long term debt can only be incurred for capital expenditure or refinancing of existing long term debt. It is however the intention of this council not to take-up further loans in the next year due to the capacity of the municipality to service further capital debt and the sustainability of servicing same.

## **2.7 Expenditure on grant allocations and grant programmes**

See Supporting table SA18 for expenditure on grant allocations and grant programmes.

## **2.8 Grants and allocations made by the Municipality**

Any allocations made to an external body must comply with the requirements of Section 67 of the MFMA. This provides that before any funds may be transferred to an external organisation, the Municipal Manager as accounting officer must be satisfied that the organisation or body has the capacity to fulfil the agreement and has sufficient financial management and other systems in place. National Treasury further indicated in MFMA circular 51 that no discretionary funds may be appropriated in the budget seeing as such funds are not transparent during the consultation process.

## **2.9 Councillor allowances and employee benefits**

Refer to Supporting Table SA22 and SA23 for Councillor Allowances and employee benefits.

## **2.10 Monthly targets for revenue, expenditure and cash flow**

Refer to Supporting Table SA25-SA30 for monthly targets for revenue, expenditure and cash flow.

## **2.11 Service Delivery and Budget Implementation plan**

To be submitted as per the requirements of the MFMA Section 69(3) 'The accounting officer must no later than 14 days after the annual budget is submitted to the Mayor submit the service delivery and budget implementation plan for the year.' The administration has in this regard gone the extra mile to table a top layer SDBIP with the budget.

## **2.12 Contracts having future budgetary implications**

Refer to Supporting Table SA33 for contracts having future budgetary implications.

## **2.13 Capital expenditure details**

Refer to Supporting Table SA36 for the detailed capital budget.

## **2.14 Legislative compliance status**

### **Municipal Financial Management Act –No 56 of 2003**

The MFMA took effect on 1 July 2004. The Act modernises budget and financial management practices within the overall aim of maximising the capacity of municipalities to deliver services.

The MFMA covers all aspects of municipal finances, including budget, supply chain management and financial reporting. The various sections of the Act are being phased in according to the designated financial management capacity of municipalities. Matzikama municipality has been designated as a medium-capacity municipality. The MFMA forms the basis of the municipal management reforms implemented by municipalities. Matzikama Municipality subscribes effectively to the provisions embodied in the MFMA.

### **The MFMA and the budget**

The following explains the budget process in terms of the requirements of the MFMA. It is based on National Treasury's manual on the MFMA.

#### The budget drafting process

The Mayor must direct the budget drafting process by means of a co-ordinated cycle of events commencing at least ten months before the start of each financial year.

#### Overview

The MFMA requires a Council to adopt a three-year capital and operating budget taking into account and aligning with the municipality's current and future development priorities and other finance-related policy (for example relating to the provision of free basic services).

These budgets must clearly set out the revenue per source and expenditure per vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and any details on loans, municipal entities, service delivery agreements, grant allocations and details of employment costs.

The budget may only be funded from reasonable estimates of revenue and cash-backed surplus funds of the previous year and loans (the latter for capital items only).

#### Budget drafting time schedule

The first step in the budget drafting process is to develop a time schedule of all key deadlines relating to the budget and to revise the Municipality's IDP and budget-related policy.

The budget drafting time schedule is compiled by senior management and tabled by the mayor for adoption by Council by 31 August (ten months before the start of the next budget year).

#### Drafting of the budget and revision of the IDP and policy

The Mayor must co-ordinate the budget drafting process and the revision of Council's IDP and budget-related policy with the assistance of the municipal manager. The Mayor must ensure that the IDP overview constitutes an integral part of the budgeting process and that any changes to strategic priorities as contained in the IDP document are based on realistic projections of revenue and expenditure.

In developing the budget, management must take into account national and provincial budgets, the national fiscal and macro-economic policy and other applicable agreements or Acts of Parliament.

The Mayor must consult the relevant District Council and all other local municipalities in that district as well as the applicable provincial treasury and the national treasury in drafting the budget, and must upon request provide certain information to National Treasury and other government departments.

The drafting process should ideally take place between August and November in order that consolidated three-year budget proposals, IDP amendments and policy could be made available during December and January. This allows time in January, February and March for preliminary consultation and discussion of the draft budget.

#### Tabling of the draft budget

By 31 March, the Mayor must submit the draft budget to Council for public release.

#### Publication of the draft budget

After submission to Council, the Municipal Manager must disclose the relevant budget documentation and submit it to the National Treasury and the relevant provincial treasury and any other state department as required. At this stage, the local community must be invited to make representations on the contents of the budget.

#### Opportunity to comment on draft budget

After submission of the draft budget, Council must consider the opinions of the local community, National Treasury and the relevant provincial treasury and other municipalities and state departments who submitted representations on the budget.

#### Opportunity for revision of draft budget

After considering all opinions and representations, Council must allow the Mayor the opportunity to react to the representations received and, if necessary, to revise the budget and submit amendments for Council's consideration.

After tabling of the draft budget at the end of March, the months of April and May must be used to accommodate public and government comments and make any revisions that may be necessary. This could assume the form of public hearings, Council debates, formal or informal delegations to National Treasury, provincial treasury and other municipalities, or any other consulting forums designed to address the priorities of interested parties.

#### Adoption of the annual budget

Thereafter, Council must consider the approval and adoption of the budget by 31 May. This offers Council a 30-day window period to review the budget several times before final approval. Should a Council fail to approve its budget during the first meeting, the budget, or an amended copy thereof, must be reconsidered within seven days and so on until it is eventually approved - before 1 July. As soon as the budget is approved, the Municipal Manager must place the budget on the municipality's website within five days.

### **Budget Implementation**

#### Implementation management – the Service Delivery and Budget Implementation Plan (SDBIP)

The Municipal Manager must submit the SDBIP and annual performance agreements for all pertinent senior personnel to the Mayor for approval within fourteen days after approval of the budget (no later than 14 July).

A SDBIP is a detailed plan for implementation of the delivery of municipal services contemplated in the annual budget and should indicate monthly revenue and expenditure projections and quarterly service delivery targets and performance indicators. The Mayor must approve the SDBIP within 28 days after approval of the annual budget (no later than 28 June). This plan must then be monitored by the Mayor and it must be regularly reported on to Council.

#### Managing the implementation process

The municipal manager is responsible for implementing the budget and must take steps to ensure that all expenditure occurs according to the budget and that revenue and expenditure is properly monitored.

### Deviation from budget estimates

In general, Council may only incur expenditure if it is in accordance with the budget, within the limits of the amounts appropriated for each budget vote – and in the case of capital expenditure, only if Council has approved the project. Expenditure incurred outside these parameters may be regarded as unauthorised, or in some cases irregular and fruitless or wasteful. Unauthorised expenditure must be reported and could result in criminal prosecution.

### Review of budget estimates – the adjustments budget

It may on occasion be necessary for Council to consider a revision of its original budget due to material and considerable changes in revenue collections, expenditure patterns, or forecasts thereof for the remaining part of the financial year. In such cases, a municipality may adopt an adjustments budget drafted by the municipal manager, submitted to the Mayor for consideration and tabled before Council for adoption.

The adjustments budget must contain certain prescribed information, it may not result in further increases in rates and tariffs and it must contain relevant justifications and supporting material when it is approved by Council.

### Requirements of the MFMA in respect of the contents of annual budgets and supporting documentation

Section 17 of the MFMA stipulates that an annual budget must be in the prescribed format and sets out what is to be included in that format. In MFMA circular 48, National Treasury offers detailed guidance on the contents of budget documentation and the supporting schedules. Matzikama Municipality adheres to the requirements of MFMA Circular 48.

The table below shows how Matzikama Municipality complies with the disclosure requirements of Section 17 of the MFMA.

<b>Requirement</b>	<b>Reference</b>
Schedule of reasonably expected revenue for the budget year from each source of revenue	1.7
Schedule indicating expenditure appropriations for the budget year under the various votes of the Municipality	1.7
Schedule setting out the indicative revenue per revenue source and projected expenditure per vote for the two financial years following on the Budget year	1.7
Resolutions - (i) approval of the budget of the Municipality (ii) instituting any municipal rates and fixing any municipal tariffs as may be required for the budget year and (iii) Approval of any other matters that may be prescribed.	1.2
Measurable performance objectives for revenue for each source and for each budget vote, taking account of the Municipality's Integrated Development Plan.	2.3
Proposed amendment to the Municipality's integrated development plan after the annual review of the IDP in terms of Section 34 of the Municipal Systems Act	N.A.
Any prescribed information on municipal entities under the exclusive or shared control of the Municipality	N.A.
Details of all prescribed new municipal entities that the Municipality wishes to establish or which the Municipality wishes to participate in	N.A.

Details of any proposed service delivery agreements, including material amendments to existing service delivery agreements	N.A
Details of any proposed grants or allocations by the municipality to - (i) other municipalities (ii) any municipal entities and other external mechanisms that assist the municipality in performing its functions or powers (iii) any other state organs (iv) any organisations or bodies referred to in Section 67 (1) (bodies outside die Government)	2.8
The proposed cost to the municipality for the budget year of the salaries, allowances and benefits of - (i) each political office-bearer of the Municipality (ii) councillors of the municipality (iii) the municipal manager, the chief financial officer, any senior manager of the municipality and any other official of the municipality with a remuneration package greater or equal to that of a senior manager	Section 13
The proposed cost in the budget year for a municipal entity under the exclusive or shared control of the Municipality for the salaries, allowances and benefits of - (i) each member of the entity's board and (ii) the chief executive officer and each senior manager of the entity	2.9

### **Other Applicable Legislation**

In addition to the MFMA, the following legislation also impacts on the Municipal budget.

#### The Division of Revenue Act, 2017 and Provincial Budget announcements

Three-year national allocation to local government is published annually according to municipality in the Distribution of Revenue Act. The Act imposes duties on municipalities additional to the requirements of the MFMA, specifically regarding reporting obligations. Allocations to the Municipality from Provincial Government are announced in the Provincial budget and published.

Section 18 of the MFMA provides that annual budgets may only be funded from reasonably expected revenue to be collected. The provision in the budget for allocation of National and Provincial government must include the allocations announced in the DORA or the applicable Provincial Gazette.

#### The Municipal Systems Act-32 of 2000 and Municipal Systems Amendment Act 44 of 2003

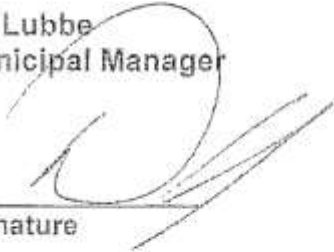
One of the key objectives of the Municipal Systems Act is to ensure financially and economically viable communities. The requirements of the Act are closely linked with that of the MFMA. In particular, the following requirements must be considered in the budget process;

Chapters 4 and 5 relate to community participation and the requirements for the Integrated Development Plan process. Performance management that links with the requirement for the budget to contain measurable performance indicators and quarterly performance targets in the Service Delivery and Budget Implementation Plan. Chapter 8 relates to the requirements of producing a tariff policy.

## 2.15 Quality Certification by Municipal Manager

I, Daniel Petrus Lubbe, Municipal Manager of Matzikama Municipality, hereby declare that the annual budget and supporting documentation have been drafted in accordance with the Municipal Financial Management Act and the regulations issued under this act, and that the annual budget and supporting documentation are aligned with the Integrated Development Plan of the Municipality.

DP Lubbe  
Municipal Manager



Signature

22 - 5 - 2019  
Date